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R. J. Reynolds Tobacco Company

Winston-Salem, N.C.

ANNUAL REPORT

1947

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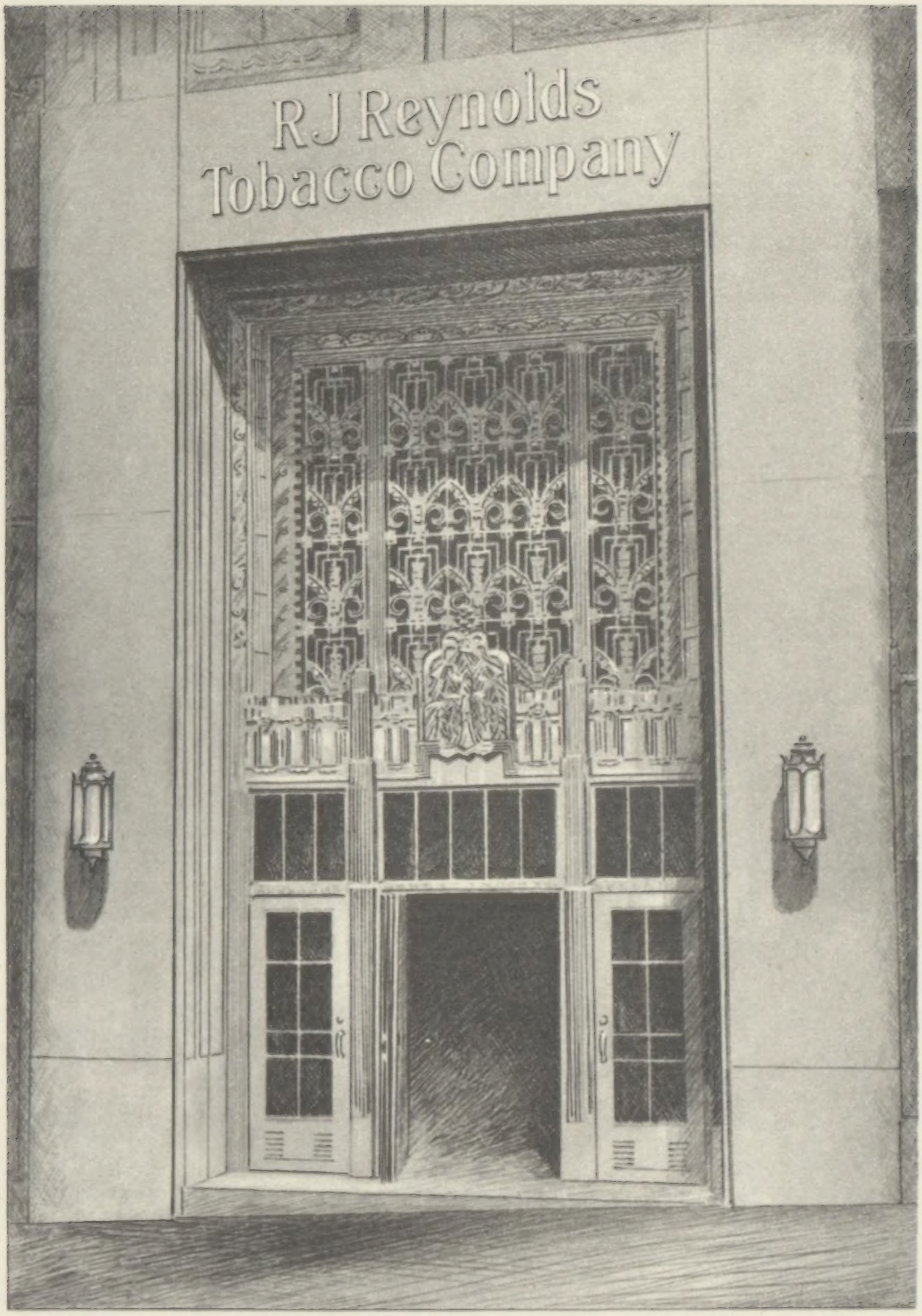

RJ Reynolds
Tobacco Company

Summary of Financial Data for 1947

Sales and Earnings

Net Sales	$708,494,186
Net Earnings	$ 32,132,186
Earnings as a percentage of Net Sales	4.54%
Earnings per share of Preferred Stock	$ 65.57
Earnings per share of common stocks after Preferred Stock dividends	$ 3.03

Disposition of Net Earnings

Dividends paid on 490,000 shares of Preferred Stock, 3.60% Series, totaling $3.60 a share	$ 1,764,000
Dividends paid on 10,000,000 shares of common stocks, totaling $2.00 a share	$ 20,000,000
Amount of Net Earnings retained for future requirements	$ 10,368,186

Balance Sheet Items

Total Assets	$458,198,899
Current Assets ($430,381,662) less Current Liabilities ($134,709,512)—Working Capital	$295,672,150
Funded Debt	$ 92,000,000
Capital Stock	$149,000,000
Surplus—Undivided Profits	$ 82,489,386

R. J. REYNOLDS TOBACCO COMPANY
Winston-Salem, North Carolina

To the Stockholders:

The Company's net sales for 1947 aggregated $708,494,186, upon which net earnings equivalent to 4.54% were realized. The year's sales represent a new high for the Company, being $95,387,883 in excess of sales for 1946, which year produced the Company's previous high in sales volume. Approximately 25% of this increase was due to the fact that the 1947 sales were at higher prices put into effect in October 1946.

Despite increased costs in 1947 and largely due to its expanding volume of sales, the Company was able, in line with its policy of pricing its products at the lowest possible basis consistent with costs and the interest of stockholders, to avoid increasing the selling prices of its products above the levels established in October 1946. Although leaf tobacco prices have more than doubled since 1939 and manufacturing and other costs have increased enormously, the Company's price for CAMEL Cigarettes, exclusive of Federal stamp taxes which increased during the interval, has advanced only 18.7% since 1939 or somewhat less than 1 cent for a package of 20 cigarettes.

During 1947 the unit sales volume of CAMEL Cigarettes continued to expand and reached a new high figure substantially greater than the unit sales in 1946 when the previous high was attained. The basic theme of CAMEL advertising in the year was the fact that, during the wartime shortages of cigarettes, smokers had found it necessary to use various brands and out of that experience had developed for themselves a personal comparison of cigarettes—a theme that was presented under the slogan "Experience Is The Best Teacher" and in combination with the associated fact that "More People Are Smoking Camels Than Ever Before". In line with the industry trend, the Company's sales, in pounds, of chewing and smoking tobaccos was somewhat less in 1947 than in 1946.

EARNINGS AND DIVIDENDS

Net earnings of the Company in 1947 were $32,132,186 against $27,972,599 in 1946. After deduction of dividends on the Preferred Stock, the 1947 net earnings available for common stocks amounted to $3.03 a share as against $2.62 a share in 1946. Dividends totaling $2.00 a share were paid in 1947 on the common stocks. These dividends consisted of quarterly interim dividends paid in February and May each in the amount of 35c, quarterly interim dividends paid in August and November each in the amount of 45c and a year-end dividend of 40c paid in December. The total dividends paid in 1946 on the common stocks amounted to $1.75 a share.

WORKING CAPITAL

At the end of 1947 the Company's current assets totaled $430,381,662 and its current liabilities totaled $134,709,512, the difference, or working capital, amounting to $295,672,150. Thus, the ratio of current assets to current liabilities was 3.2 to 1. This working capital compares with a like item of $263,317,562 at the end of 1946. By far the largest of the items included in current assets is inventories which at the end of 1947 amounted to $400,002,998 as against $334,675,764 at the end of 1946. The increase in inventories is accounted for mainly by the additional requirements of leaf tobacco for the Company's expanding business and by the fact that, due to the more rapid marketing of the 1947 crop, a larger percentage of

the Company's leaf tobacco requirements was acquired before the end of the year than was the case in 1946.

Inventories have been determined and are stated, as in the past, in accordance with the established practice of the industry on the basis of the average cost method. Under this method each purchase of tobacco from any crop is averaged in, grade by grade, with like tobacco on hand thereby establishing an average cost for each grade.

LEAF TOBACCO PRICES

While the average price per pound paid by the Company for its purchases of flue-cured tobacco from the 1947 crop, which purchases consisted principally of the high quality cigarette grades, was somewhat less than such price paid by the Company for its purchases from the 1946 crop, the percentage of decline was appreciably less than the percentage of decline of the average price at which the 1947 crop sold as a whole compared with such price for the 1946 crop.

Although at the end of the year the marketing of the 1947 Burley crop had not been completed, a large part of the crop had been sold. On the basis of purchases to the end of the year, the average price per pound paid by the Company for its purchases of Burley tobacco from the 1947 crop was somewhat greater than the average price paid by the Company for Burley tobacco from the 1946 crop.

Notwithstanding the decrease in purchase price of flue-cured tobacco obtained from the 1947 crop, the average cost of tobaccos used by the Company in its products in 1947 was greater than such cost in 1946. On the basis of purchases to the end of the year, it is indicated that the average cost of leaf tobacco that will be used in the Company's products in 1948 will exceed such cost for 1947.

The Department of Agriculture has announced that in 1948 the acreage allotted to tobacco growers under the crop control program will be reduced by about 28% for flue-cured tobacco and by about 10% for Burley tobacco. These proposed reductions in acreage are, however, subject to change.

FINANCING

The Company has continued financing a large part of its purchases of leaf tobacco under its stand-by credit agreement with fourteen banks entered into in June, 1946. Under this agreement, a credit aggregating $150,000,000 is available to the Company through June, 1951. Borrowings are made under the credit against short-term notes which are discounted by the respective lending banks at the prime commercial discount rate of each bank but not to exceed 1¾% per annum. Practically all borrowings under the credit during 1947 were at the rate of 1½% per annum, but some of the banks increased their discount rates in December to 1¾%.

Recognizing the need for additional long-term funds as developed by its greatly expanding business, the Company on October 1, 1947 borrowed at par, payable over a period of 25 years, an additional amount of $30,000,000 from an insurance company. This loan, as does the 20 year loan of $60,000,000 arranged in 1946, carries interest at 2½% per annum and is payable in installments of $1,000,000 during each of the years 1950 to 1965, inclusive, and $2,000,000 during each of the years 1966 to 1972, inclusive.

PHYSICAL PLANT

Although major construction work generally has been deferred by the Company because of continuing high levels of building costs, efficient operation required immediate construction of additional leaf tobacco redrying and storage facilities as well as an additional steam plant for

the Winston-Salem factories. Accordingly, recently there have been built a new redrying plant near Greensboro, North Carolina, several leaf tobacco storages near Kernersville, North Carolina, and a new steam plant in Winston-Salem. The redrying plant was finished in time to permit its use in handling the 1947 leaf crop with the result that substantial savings have been effected in that the Company has been able itself to redry practically all of its purchases from that crop. The new storages have also reduced operating expenses by reducing insurance costs and rents for the amount of storage space which the Company would otherwise have been required to lease. Recognizing that these and certain other additions to or improvements of the Company's physical plant reduced immediate operating costs and provided for imminent steam needs and that the work was done under conditions which had resulted in unusually high construction costs, there has been set aside out of earnings for the year a reserve of $500,000 on account of depreciation of excessive construction costs.

As of the year-end the gross amount at which the physical plant account was carried was $43,044,095 as against $35,488,271 at the end of 1946. The plant account, after deduction for depreciation, obsolescence and reserve for depreciation of excessive construction costs, was $24,968,661 at the end of 1947 compared with $18,836,702 at the end of 1946.

The Company's valuable brands, trade-marks and good will are carried as previously at the nominal amount of $1.

NUMBER OF STOCKHOLDERS

As of the year-end the holders of the Company's stocks totaled 70,024, of whom 61,595 were holders of the Common Stock and New Class B Common Stock and 8,429 were holders of the Preferred Stock. Without allowing for duplications resulting from a single person holding more than one class of stock, there were, at the year-end, approximately 425 stockholders for every 100 employees.

EMPLOYEES

At the end of the year the Company had in its employ 16,495 persons, of whom 12,259 were classified as regular employees and 4,236 as seasonal workers. Considering only the Company's physical plant and inventories, the average amount of capital required for the operation of each employee's job was $26,859.

Certain wage increases were granted in 1947. As of the end of 1947 the average straight-time hourly pay for factory employees was approximately 84% greater than the rate paid in January, 1941. The Company continues to maintain for the benefit of employees its Retirement Plan, Group Life, Health and Accident Insurance Plan, Hospitalization Plan and Vacation Plan.

Generally, the year 1947 witnessed further and very definite progress toward the reestablishment of normal conditions in the segments of the business that had been most affected by war conditions. Substantial improvement in the availability of many important materials and supplies was experienced. Likewise, the increasing availability of machinery and equipment for replacement and extension of plant facilities made it possible to relieve some difficult situations with which the Company was confronted in some recent years through lack of availability of such items.

J. W. GLENN,
President.

January 20, 1948.

R. J. REYNOLDS TO

Balance Sheet, De

ASSETS

CURRENT ASSETS:		
Cash	$ 9,658,561.50	
Accounts receivable (net) for merchandise sold	20,115,139.70	
Carry-back credit on excess profits tax	604,962.74	
Leaf tobacco, supplies, manufactured product, etc.—at average cost	400,002,998.78	
TOTAL CURRENT ASSETS		$430,381,662.72
REAL ESTATE, MACHINERY AND EQUIPMENT—at cost	$ 43,044,095.82	
Less depreciation, obsolescence, etc.	18,075,434.68	
NET REAL ESTATE, MACHINERY AND EQUIPMENT		24,968,661.14
OTHER ASSETS:		
Investments in non-competitive companies	$ 25,000.00	
Sundry receivables and deposits	1,543,686.10	
Brands, trade-marks and good will	1.00	
Prepaid expenses	1,023,580.41	
Retirement and Insurance Investment Fund (consisting of 200,000 shares of Common Stock of the Company)	$ 10,120,000.00	
Less reserve accrued to December 31, 1947	9,863,691.96	
	256,308.04	
TOTAL OTHER ASSETS		2,848,575.55
		$458,198,899.41

BACCO COMPANY
ecember 31, 1947

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	$ 5,631,063.93	
Notes payable	100,000,000.00	
Serial notes payable in 1948	2,000,000.00	
Accrued Federal and State taxes	25,931,412.67	
Sundry accrued accounts	647,036.01	
Reserve for contingencies	500,000.00	
TOTAL CURRENT LIABILITIES		$134,709,512.61
FUNDED DEBT:		
Serial notes (1¾%) payable 1949	$ 2,000,000.00	
2½% Promissory Notes payable 1950-1972	90,000,000.00	
TOTAL FUNDED DEBT		92,000,000.00
CAPITAL AND SURPLUS:		
Preferred Stock—Par $100:		
Authorized 750,000 shares		
Issued 490,000 shares—		
3.60% Series	$ 49,000,000.00	
Common Stock—Par $10:		
Authorized 1,000,000 shares		
Issued 1,000,000 shares	10,000,000.00	
New Class B Common Stock—Par $10:		
Authorized 13,000,000 shares		
Issued 9,000,000 shares	90,000,000.00	
	$149,000,000.00	
Surplus—Undivided Profits (Note A)	82,489,386.80	
TOTAL CAPITAL AND SURPLUS		231,489,386.80
		$458,198,899.41

Statement of Income

Year Ended December 31, 1947

NET SALES		$708,494,186.01
OTHER INCOME:		
Dividends, interest and sundry		7,497.86
TOTAL INCOME		$708,501,683.87
LESS:		
Cost of goods sold and other charges, including selling and general expenses, but exclusive of items below	$644,644,042.17	
Provision for depreciation and obsolescence (including $500,000.00 depreciation on account of excessive construction cost of 1947 plant additions)	1,924,935.66	
Interest charges	3,037,884.80	
Provision for participation in profits under Article XII of By-Laws payable to 1,724 officers and employees	2,191,694.45	
Provision for Federal and State taxes on income	24,570,940.09	
TOTAL INCOME DEDUCTIONS		676,369,497.17
NET EARNINGS FOR YEAR		$ 32,132,186.70
Dividends paid on Preferred Stock		$ 1,764,000.00
NET EARNINGS APPLICABLE TO COMMON STOCKS		$ 30,368,186.70

Statement of Surplus

Year Ended December 31, 1947

SURPLUS—UNDIVIDED PROFITS at beginning of year		$ 72,121,200.10
ADD:		
Net earnings for year		32,132,186.70
		$104,253,386.80
DEDUCT:		
Cash dividends on—		
Preferred Stock, 3.60% Series	$ 1,764,000.00	
Common stocks (including 200,000 shares of Common Stock held in Retirement and Insurance Investment Fund) at $2.00 per share, consisting of two quarterly interim dividends of 35c each, two quarterly interim dividends of 45c each and a year-end dividend of 40c	20,000,000.00	
		21,764,000.00
SURPLUS—UNDIVIDED PROFITS at end of year (Note A)		$ 82,489,386.80

F. S. HILL, Treasurer.

Note A: So long as either of its 2½% Promissory Notes or any part of either remains unpaid the Company is obligated not to declare dividends (other than stock dividends) and not to make payment on account of purchase, redemption or retirement of any shares of its stock to an extent where such dividend or payment plus the aggregate of all such prior dividends and payments made from January 1, 1946 shall exceed an amount equal to the Net Income of the Company from January 1, 1946 to and including the date of such declaration or payment plus $15,000,000, but such limitation does not restrict declaration or payment of dividends on Preferred Stock. At December 31, 1947 the part of Surplus—Undivided Profits not affected by this restriction was $34,076,785.71.

Report of Independent Certified Public Accountants

R. J. REYNOLDS TOBACCO COMPANY:

We have examined the balance sheet of R. J. REYNOLDS TOBACCO COMPANY as at December 31, 1947, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods, at times and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

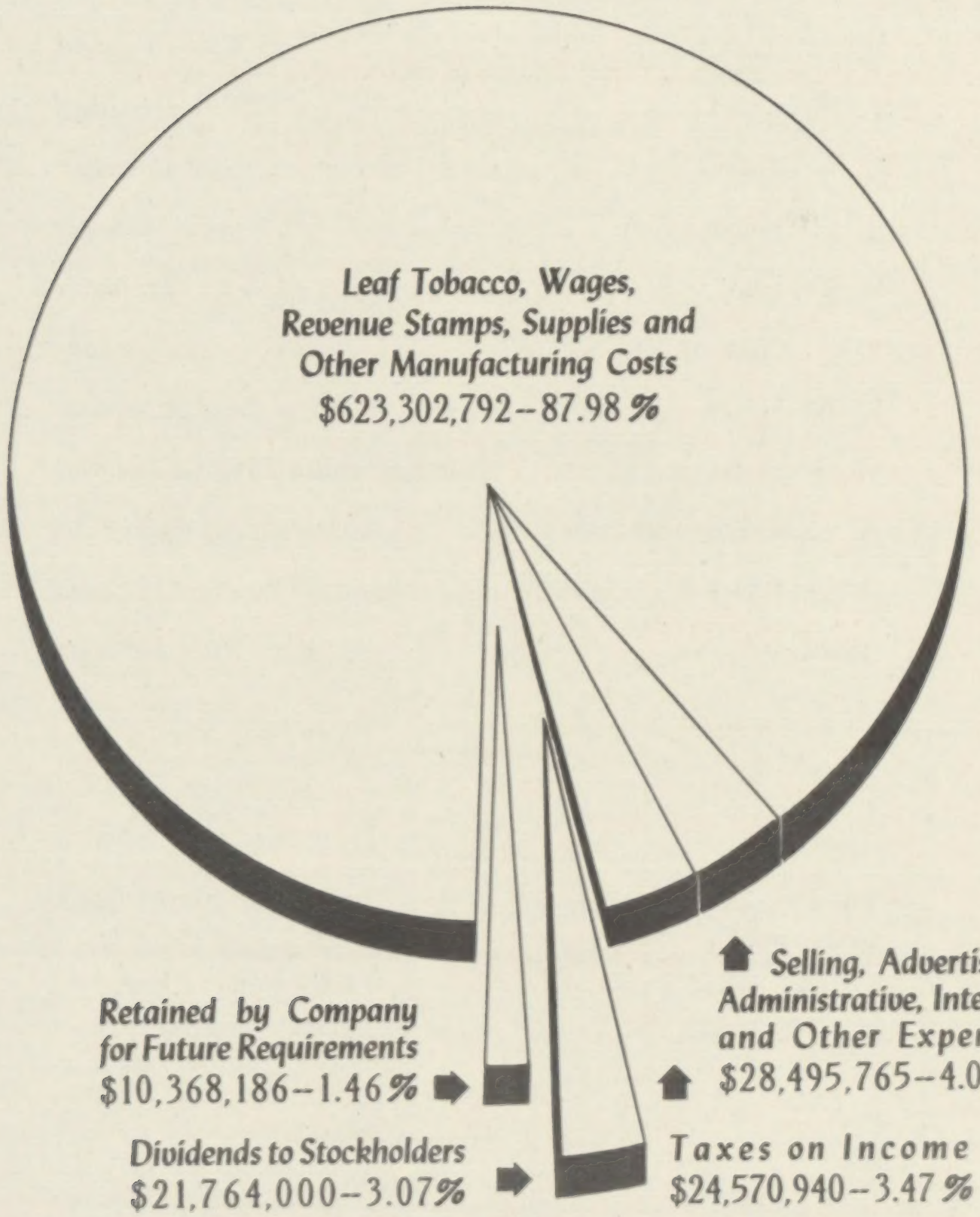
In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the Company at December 31, 1947, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,

Certified Public Accountants.

January 19, 1948.

Disposition of the Company's Total Income in 1947



Board of Directors

S. Clay Williams	*Chairman Board of Directors*
Jas. A. Gray	*Chairman Executive Committee*
J. W. Glenn	*President*
John C. Whitaker	*Vice-President*
R. C. Haberkern	*Vice-President*
P. Frank Hanes	*Vice-President*
E. A. Darr	*Vice-President*
L. F. Owen	*Traffic Manager*
F. S. Hill	*Treasurer*
W. J. Conrad, Jr.	*Secretary*
H. N. Hardy	*General Leaf Supervisor*
W. T. Smither	*Manager Advertising Department*
R. G. Vallandingham	*General Leaf Supervisor*
H. H. Ramm	*Solicitor and Assistant to Chairman of Board*
Bowman Gray	*Assistant Sales Manager*

Transfer Agents

The Chase National Bank
of the City of New York,
11 Broad Street,
New York, N. Y.

The First National Bank
of Jersey City,
1 Exchange Place,
Jersey City, N. J.

Registrar

Central Hanover Bank
and Trust Company,
70 Broadway,
New York, N. Y.

Principal Brands of the Company

CAMEL
CIGARETTES

Smoking Tobaccos

PRINCE ALBERT

GEORGE WASHINGTON • OUR ADVERTISER

STUD • TOP

Chewing Tobaccos

BROWN'S MULE • DAYS WORK

APPLE SUN CURED

REYNOLDS' NATURAL LEAF

REYNOLDS' SUN CURED

CUP • SCHNAPPS • HONEY CUT

STRATER'S NAT. LEAF TWIST

WINESAP • MICKY TWIST

TOP